



Remarks by
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Good afternoon. It is a great pleasure to be at the Washington Metropolitan Cable Club today. I would like to thank Robert Sachs and John Evans for inviting me to speak to you about the cable industry in Canada and in particular some of the parallels between Canada and the United States.

On either side of the border, choice is a hot topic. However, the consumer demand for choice in Canada stems from the availability of programming, not from our ability to choose channels. So let me set some context around the cable industry in Canada and put the Canadian à la carte offering in perspective.

But first let me start by pointing out a fundamental difference between Canadians and Americans. English Canadians tend to be less direct when it comes to making a point. We are masters of understatement – probably a linguistic artifact of our British heritage.

So let me make my opening statement as any Canadian would. Here it goes: “As someone who has fought for years for increased competition and choice in Canadian broadcasting, I find it somewhat ironic that some policy makers in your country want to emulate Canada when it comes to consumer choice and diversity.”

Now, a rough American translation.

“I would kill for the choice you get on TV.” More subtly put, “Canadians are very envious of the choice and diversity available to American consumers – so much so we have to restrict the importation of your services to make sure that we can generate an audience for Canadian TV.”

Now that might sound a little crazy. But there’s an economic reality that underlies the system for the protection of Canadian content – very simple economics.

Today 18 to 20 of the top-rated programs on Canadian television are American – programs like CSI, Law and Order, American Idol and Survivor. That’s because you have the economies of scale to produce top quality entertainment, while our ability to churn out programming with similar production values is financially constrained.

We’re a country that is a tenth the size of America when it comes to population. That translates into a much smaller audience for even must-carry services. And less audience means less revenue for original programming.

In addition, 30% of our population is French-speaking. So we have a huge problem in English Canada when it comes to producing quality programming on any scale. It’s not that there isn’t creative talent in Canada – there is.

Unfortunately, many of our most creative resources actually work in New York and L.A. That, of course, is why we like your programming so much. We made it.

But seriously, we are no less creative. It's just that the market for Canadian programming is small.

Let me take a few minutes to explain how cable works in Canada. As in the U.S., cable started as a retransmitter of broadcaster signals, particularly accelerated by importing the distant and not-so-distant U.S. signals that many Canadians desired. Today there are 7.2 million cable subscribers and over 2 million DBS subscribers. As with U.S. consolidation, the top 4 operators – Rogers, Shaw, Cogeco and Videotron – provide service to 85% of Canadian homes served by cable. A typical system offers 68 analog channels. Nearly all offer digital tiers as well, including a form of à la carte that I'll get to in a few minutes.

But while the U.S. and Canadian systems look somewhat alike, there are differences in the details. For one thing, when you use the word “broadcaster” you mean TV licensees. Up north, “broadcaster” refers to both over-the-air program services as well as cable networks like CNN.

And take the term “must carry.” Here, it refers to a right enjoyed by local broadcasters regarding carriage on local cable systems. In Canada, it has a

much more expansive meaning. It applies to Canadian-based cable networks as well as broadcasters; and, for most of the history of Canadian cable, it has been a government guarantee of delivery for Canadian program networks.

Let me explain. Our regulator, the Canadian Radio-television and Telecommunications Commission – CRTC – has created an intricate web of carriage rules to promote Canadian culture and diversity. Here is the menu:

1. Before you get to à la carte on digital, you must buy basic service. On basic, we must carry:
 - All local and regional CBC stations (CBC is our public broadcaster),
 - An English CBC station and a French CBC station,
 - All other local and/or regional television signals,
 - All provincial educational stations,
 - All local radio stations,
 - At least one English and one French CBC radio station,
 - TVA (a French-language service), APTN (the aboriginal channel) and CPAC (our version of CSPAN),
 - In addition, most of the cable networks introduced prior to 1994 have a dual carriage status (i.e. they are generally offered as part of the basic service, unless the service consents to distribution on a discretionary basis) – so, MuchMusic (our MTV), TSN (our ESPN),

Weather Network, Newsworld (the public CNN), Vision TV (a multi-faith channel) and YTV (a channel for youth) all have such status.

2. The most popular cable services are only available on analog tiers and by regulation cannot be moved to digital without the consent of the network. That consent would not be provided because “broadcasters” – remember that includes both cable and terrestrial content providers – fear à la carte or pick packs would fragment their market and undermine revenues required to contribute to the production of Canadian content.
3. To further ensure that services have sufficient revenues to produce Canadian content, the regulator sets minimum wholesale rates that operators must pay broadcasters. In the U.S., these arrangements are generally governed by the market.
4. Finally, the government limits what can go on both analog and digital tiers, and limits the distribution of popular U.S. services to protect broadcasters and promote the production of Canadian content.

The result: Canada's home grown broadcasters are generally granted monopolies in specific program genres. If you want a movie channel you only have one choice. If you want a sports channel, there is somewhat more choice. There is one sports channel for regional and one for headline sports as well as a national service.

There is only one Home & Garden-like channel, only one sci-fi channel and these aren't the same as the U.S.-versions seen here and overseas. You can't get HBO in Canada, although you can get the Sopranos on our monopoly movie channel. You can't get Fox News, Nickelodeon, or MTV, no matter how much our customers demand these services.

You get the point.

This highly regulated world seems out of step from where I believe video content is headed. I see a new model for digital that is redefining how information, entertainment and communications are integrated into the lives of Canadian and American consumers. This digital revolution has been driven by billions of dollars of cable operator investment in both Canada and the United States and is illustrated by two distinct phenomena. First, the primacy of television as the major source of household entertainment and information is being challenged, particularly among the younger demographic.

Second, video content is moving away from the TV set to a range of devices. TV is acquiring the attributes of a personal computer. And the Internet is becoming a viable alternative for the delivery of video and voice communications. In the new digital world, content will move on many platforms and be accessed by multiple devices. Digital technology is letting it all become connected. The more TV goes digital, the faster the pace of change across all broadcasting and communications sectors.

Visit a big box electronics store and you'll see the integration of entertainment, information and communications through digital media and broadband. Today, DVDs, video games, CDs, MP3 players and digital cameras occupy more shelf space than VCRs, fax machines and telephones.

Three-quarters of consumers we surveyed report that personal devices and home technologies make it possible to access the information and entertainment they want, when they want it. Almost the same proportion agree that they are acquiring these technologies so they can be free to manage their entertainment and information content themselves. That's the digital market.

We see significant opportunities in the next five years to use digital to provide consumers with:

- Super-fast “big broadband” Internet that provides them with real-time access to DVD-quality video and CD-quality sound originating from anywhere in the world.
- Sophisticated video experiences from more than 200 available channels of wide-screen, cinema-quality television, and thousands of virtual connections on demand in almost any language.
- A full-service communications alternative that adds video and mobile functionality to the home telephone and allows consumers to see friends and relatives located in other cities.
- More access to government and social services, tele-health and online education, as well as local expression through community channels and online portals.

All this choice over advanced broadband networks. As a result of our investment, a new generation of content creators and independent producers

(the next young turks) will benefit from abundant channel capacity for new digital services or new interactive applications.

And commercial businesses will gain access to a gateway that will bring regional and economic growth, e-commerce and global markets to small and large communities.

So, for the cable industry in Canada, when we think choice, increasingly we think less about channels and more about connections. That's the promise of digital.

So it's somewhat ironic that America has become engaged in a spirited debate about regulated choice – or mandated à la carte – when our industry looks enviously to your country because of the choice you have in terms of diversity.

Let me explain how cable à la carte actually works in Canada. As a result of the more highly regulated nature of Canadian cable, the government determined that future cable networks would be licensed only for digital, not analog. Thus, Canadian distributors now view digital as the future for new network services. As an example, the last big regulatory initiative for licensing Canadian cable networks in 1999 was an all digital model. Alternatively, U.S. systems could, and did, add several more analog services to the expanded basic line-up to serve continued demand.

Today, new channels generally, and à la carte offerings in particular, are offered in digital only. A customer has to lease or buy a digital box for every set that they want à la carte. And, under Canadian regulation a customer still has to buy a basic tier of service before à la carte can be selected. Add to that, with the exception of French-speaking Canada, nearly all of the popular Canadian channels remain on analog.

What's mostly available on digital channels are niche sports, movie, and lifestyle networks, Canadianized versions of U.S. cable networks that could not be carried under the must-carry Canadian rules described earlier and foreign-language offerings. These are offered on a pick-and-pay basis and they are also offered in 6 to 8 channel theme packs, which are a much better buy after a first or second channel is picked à la carte. For instance, on the Rogers digital system you can buy individual services at \$2.49 a channel. But few do – and usually on top of a package.

In French-speaking Canada, you can't make the same assumptions about what are the most "popular" services. So the expanded basic tiers look a little different. But even there, you must buy a basic tier and groups of additional channels before buying channels individually. If a consumer wants to buy only a few services à la carte, he or she has to buy through a supplementary tier over basic. Those interested in buying à la carte will generally select a 20 service tier for \$20 or a 30 service tier for \$30. And there, too, as you might expect, pricing encourages buying larger tiers rather than à la carte channels. Bottom line, the revenue from the à la carte offer is a small increment over revenues from traditional tiers.

This complexity of Canada's system, particularly limits on access to popular U.S. services may explain why Canadian digital penetration trails U.S. digital penetration – about 22% compared to your 30% -- nearly a third less successful. While available à la carte, Canada's digital channels are more of an increment to popular analog services. In fact, the average weekly share of all diginets put together is only equivalent to the share of our version of ESPN on analog. As a result there is very little original programming. Most are repeats of programming on affiliated analog channels and old standards from Bob Newhart to Bewitched.

In most of Canada à la carte plays no part in how operators sell the most popular networks and true à la carte isn't "true à la carte" even in French-speaking Canada. Let me add that only one provider in Canada actually put à la carte at the centre of its business plan, Look TV. It went into receivership.

To conclude, from this observer's vantage, it seems quite odd that U.S. regulators would look at à la carte, this none-too-successful aspect of the Canadian system, as a way to improve your admirable system. This policy focus seems quite off the mark in a world of seismic changes when it comes to delivering digital content.

We at CCTA see a digital future in which every home in Canada can choose from a range of digital broadband connections. We see a future in which access to advanced broadband services is no longer restricted by geography; where competition and innovation thrive; and where consumers, communities and content creators reap the benefits of cable's investments in new digital delivery systems.

In Canada, choice means more faith in the marketplace. Throughout my career in government and industry, I have used America as an example of the benefits of letting markets work, from long distance phone service to competition in

television. I guess if you allow a guest this comment – don't abandon that model, it works.

Or to translate back in into Canadian-speak: We in the cable industry have always been envious of your faith in the invisible hand of the market.

Thank you.